

**REPORT OF THE AUDIT OF THE
HENRY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENRY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Henry County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$79,778 from the beginning of the year, resulting in a cash surplus of \$3,121,838 as of June 30, 2003.

Debt Obligations:

Total Kentucky Infrastructure loan principal as of June 30, 2003, was \$93,151.

Capital lease principal agreements totaled \$328,249 as of June 30, 2003. Future principal and interest payments of \$426,520 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John L. Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Henry County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Henry County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Henry County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Henry County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John L. Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 1, 2004 on our consideration of Henry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Henry County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 1, 2004

HENRY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

John Logan Brent	County Judge/Executive
John Allgeier	Magistrate
Jerry Beasley	Magistrate
David Brown	Magistrate
Michael Fisher	Magistrate
Wayne Gunnell	Magistrate
Cecil McCarty	Magistrate

Other Elected Officials:

Virginia Harrod	County Attorney
Neil Stivers	Jailer
Juanita Lashley	County Clerk
Leland Payton	Circuit Court Clerk
G. R. "Bobby" Downey	Sheriff
Jason Scriber	Property Valuation Administrator
James Pollard	Coroner

Appointed Personnel:

Mary A. Scriber	County Treasurer
Peggy V. Bryant	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

HENRY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only) Reporting Entity</u>
	<u>General</u>	<u>Debt Service</u>	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$ 2,854,023</u>	<u>\$ 312,589</u>	<u>\$ 3,166,612</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Lease (Note 5)	<u>\$ 328,249</u>	<u>\$</u>	<u>\$ 328,249</u>
Loan Payments (Note 4)		<u>93,151</u>	<u>93,151</u>
Total Other Resources	<u>\$ 328,249</u>	<u>\$ 93,151</u>	<u>\$ 421,400</u>
Total Assets and Other Resources	<u><u>\$ 3,182,272</u></u>	<u><u>\$ 405,740</u></u>	<u><u>\$ 3,588,012</u></u>

The accompanying notes are an integral part of the financial statements.

HENRY COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Types		Totals (Memorandum Only) Reporting Entity
	General	Debt Service	
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease (Note 5)	\$ 328,249	\$	\$ 328,249
Loan Payable (Note 4)		93,151	93,151
Payroll Liabilities	44,774		44,774
Total Liabilities	\$ 373,023	\$ 93,151	\$ 466,174
<u>Equity</u>			
Fund Balances:			
Reserved	\$	\$ 312,589	\$ 312,589
Unreserved	2,809,249		2,809,249
Total Equity	\$ 2,809,249	\$ 312,589	\$ 3,121,838
Total Liabilities and Equity	\$ 3,182,272	\$ 405,740	\$ 3,588,012

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

HENRY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,319,043	\$ 823,584	\$ 81,274	\$ 17,919
Other Financing Sources:				
Transfers In	185,464		365,000	
Kentucky Advance Revenue Program	534,700	261,400		
Prior Year Voided Check	887			
Total Cash Receipts	<u>\$ 3,040,094</u>	<u>\$ 1,084,984</u>	<u>\$ 446,274</u>	<u>\$ 17,919</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,030,634	\$ 613,503	\$ 464,869	\$ 21,500
Other Financing Uses:				
Disaster and Emergency Expenditures	3,429			
Transfers Out	365,000	185,464		
Capital Lease Principal	14,269			
Loan Principal				
Kentucky Advance Revenue Program Repaid	534,700	261,400		
Total Cash Disbursements	<u>\$ 2,948,032</u>	<u>\$ 1,060,367</u>	<u>\$ 464,869</u>	<u>\$ 21,500</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 92,062	\$ 24,617	\$ (18,595)	\$ (3,581)
Cash Balance - July 1, 2002	<u>923,672</u>	<u>1,624,338</u>	<u>31,379</u>	<u>79,243</u>
Cash Balance - June 30, 2003	<u>\$ 1,015,734</u>	<u>\$ 1,648,955</u>	<u>\$ 12,784</u>	<u>\$ 75,662</u>

The accompanying notes are an integral part of the financial statements

HENRY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2003
(Continued)

General Fund Type		Debt Service Fund Type	
Fair Fund	Water Grant Fund	Revolving Loan Fund	Totals (Memorandum Only)
\$ 6,814	\$ 1,400,234	\$ 12,661	\$ 4,661,529
			550,464
			796,100
			887
<u>\$ 6,814</u>	<u>\$ 1,400,234</u>	<u>\$ 12,661</u>	<u>\$ 6,008,980</u>
\$ 7,638	\$ 1,400,234	\$ 4,957	\$ 4,543,335
			3,429
			550,464
			14,269
		21,605	21,605
			796,100
<u>\$ 7,638</u>	<u>\$ 1,400,234</u>	<u>\$ 26,562</u>	<u>\$ 5,929,202</u>
\$ (824)	\$	\$ (13,901)	\$ 79,778
56,938		326,490	3,042,060
<u>\$ 56,114</u>	<u>\$ 0</u>	<u>\$ 312,589</u>	<u>\$ 3,121,838</u>

The accompanying notes are an integral part of the financial statements

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Henry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity..

Additional - Henry County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Henry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Henry County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Henry County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Fair Fund, and the Water Grant Fund.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Revolving Loan Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Henry County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Library is considered a related organization of Henry County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt

Henry County has entered into a loan agreement with the Kentucky Infrastructure Authority. The terms of the loan are 3.0 percent interest on the unpaid balance with semiannual payments due June 1 and December 1 of each year, beginning December 1, 1992. The loan is to be paid in full June 1, 2007. The principal balance of the loan was \$93,151 as of June 30, 2003. The following table shows scheduled interest and principal amounts due during the remaining life of the loan.

<u>Fiscal Year Ended</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2004	\$ 2,804	\$ 22,258
June 30, 2005	2,087	22,931
June 30, 2006	1,347	23,624
June 30, 2007	<u>585</u>	<u>24,338</u>
Totals	<u>\$ 6,823</u>	<u>\$ 93,151</u>

Note 5. Capital Lease

On October 29, 1999 Henry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$375,000. The purpose of the lease was the purchase of the Courthouse Annex county office building and land. The lease was refinanced on May 7, 2001, with the terms of the lease being a variable interest rate on the unpaid principal with monthly payments due the 20th of each month. The lease is to be paid in full on May 20, 2020. The principal balance on the lease was \$328,249 as of June 30, 2003. The following table shows the scheduled interest (based upon an interest rate of 4 percent) and principal amounts due during the next five years and thereafter.

<u>Fiscal Year Ended</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2004	\$ 10,406	\$ 14,844
June 30, 2005	9,887	15,329
June 30, 2006	9,400	15,829
June 30, 2007	8,881	16,346
June 30, 2008	8,358	16,879
2009-2013	33,041	93,030
2014-2018	16,769	109,239
2019-2020	<u>1,529</u>	<u>46,753</u>
Totals	<u>\$ 98,271</u>	<u>\$ 328,249</u>

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Insurance

For the fiscal year ended June 30, 2003, Henry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Prior Year Cash Balance

The cash balance in the General Fund at July 1, 2002, was \$923,672. The balance reported in the prior year audit at June 30, 2002, was \$920,803. The difference of \$2,869 was due to amounts in two accounts held by the director of the Disaster and Emergency Service: [Emergency Planning (\$729) and the Local Emergency Planning Committee (\$2,140)] that were not reported in the prior fiscal year.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HENRY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,772,287	\$ 2,319,043	\$ 546,756
Road and Bridge Fund	847,523	823,584	(23,939)
Jail Fund	509,671	81,274	(428,397)
Local Government Economic Assistance Fund	24,256	17,919	(6,337)
Fair Fund	6,000	6,514	514
Water Grant Fund	1,680,000	1,400,234	(279,766)
<u>Debt Service Fund Type</u>			
Revolving Loan Fund	<u>20,000</u>	<u>12,661</u>	<u>(7,339)</u>
Totals	<u>\$ 4,859,737</u>	<u>\$ 4,661,229</u>	<u>\$ (198,508)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,859,737
Add: Budgeted Prior Year Surplus			635,063
Less: Other Financing Uses			<u>(52,000)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 5,442,800</u>

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SCHEDULE OF OPERATING REVENUE

HENRY COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

GOVERNMENTAL FUND TYPES			
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Debt Service Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 1,008,776	\$	\$ 1,008,776
Excess Fees	89,024		89,024
Licenses and Permits	96,529		96,529
Intergovernmental Revenues	2,575,228		2,575,228
Charges for Services	180,794		180,794
Miscellaneous Revenues	650,272		650,272
Interest Earned	48,245	12,661	60,906
Total Operating Revenue	<u>\$ 4,648,868</u>	<u>\$ 12,661</u>	<u>\$ 4,661,529</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HENRY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,253,004	\$ 1,175,298	\$ 77,706
Protection to Persons and Property	919,690	739,721	179,969
General Health and Sanitation	100,754	96,282	4,472
Social Services	32,000	21,500	10,500
Recreation and Culture	85,420	51,924	33,496
Roads	754,765	532,562	222,203
Debt Service	20,000	19,995	5
Capital Projects	1,740,000	1,400,234	339,766
Administration	532,167	500,862	31,305
Total Operating Budget - General Fund Type	\$ 5,437,800	\$ 4,538,378	\$ 899,422
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease	15,000	14,269	731
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 5,452,800</u>	<u>\$ 4,552,647</u>	<u>\$ 900,153</u>

HENRY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	DEBT SERVICE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	\$ 5,000	\$ 4,957	\$ 43
Total Operating Budget - Debt Service Fund Type	\$ 5,000	\$ 4,957	\$ 43
Other Financing Uses:			
Kentucky Infrastructure Authority- Principal	37,000	21,605	15,395
TOTAL BUDGET - DEBT SERVICE FUND TYPE	\$ 42,000	\$ 26,562	\$ 15,438

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John L. Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Henry County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 1, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John L. Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Henry County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Henry County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Henry County's management. Our responsibility is to express an opinion on Henry County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Henry County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Henry County's compliance with those requirements.

In our opinion, Henry County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Henry County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Henry County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 1, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HENRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Henry County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Henry County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Henry County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Henry County reported in Part C of this schedule.
7. The programs tested as major programs were: Water Acquisition and Shared Tank Project (CFDA 14.228)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Henry County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

None

NONCOMPLIANCES:

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HENRY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants- Water System Acquisition and Shared Tank Project (CFDA # 14.228)	01-050	\$ 1,670,000
<u>U.S. Department of Justice</u>		
COPS Grant (CFDA #16.710)	2000-SHK-0355	<u>36,803</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,706,803</u>

HENRY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Henry County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

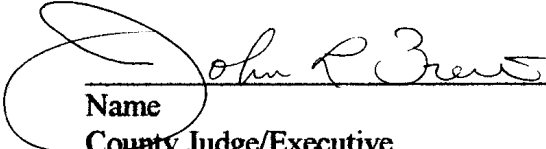
HENRY COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HENRY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Henry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

